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Editor's Note

This issue provides three innovations, starting with the cover illustration designed to show the liveliness we hope you always find inside. Next, a new feature called "Potpourri," which is a collection of short items we find appealing. Finally, we found so many interesting stories this month we expanded to 16 pages (which in the past we only did for the once-per-quarter "Industry Outlook Report"). We don't expect to put either the Potpourri or the 16-page length in every issue—only when, as this month, our cup runneth over with intriguing material.

We hope you like this month's innovations but, in any event, we're sure you'll like the content. The subject matter of the pieces by Belle Sawhill and Gary Becker are somewhat related. Murray Weidenbaum's piece is more for fun, but includes some thoughtful, serious points as well. And our ever faithful Colloquium panel is as interesting as always.

Ed Fiedler

Maxim of the Month:

Its name is Public Opinion. It is held in reverence. It settles everything. Some think it is the voice of God.

Mark Twain
Europe and Everywhere

Shooting Ourselves in the Foot

The President's trip to Japan intensified economic tensions in both countries. Congressmen tell us the recession is "made in Japan" and threaten to ban all Japanese cars."Buy American" grabs the headlines. This friction is often referred to as a trade *war*.

Does this make sense? From an economy-wide point of view, definitely not. When the Japanese sell cars here, they can either spend the proceeds on goods to take back to Japan or (if they don't do that, thus creating a U.S. trade deficit) they invest the money here either buying a U.S. business or stocks and bonds. In both cases (that is, with or without a trade deficit) no money leaves the U.S. economy, and so no lasting harm is done to total economic activity.

Furthermore, all these transactions are consensual. Americans are not being *forced* to buy Japanese cars. They do so on their own volition, because they'd rather have the Japanese cars than something else. And the Japanese sell the cars here because they want the U.S. goods and companies and securities they buy with the proceeds. Thus both buyers and sellers feel they benefit, and both nations are better off.

This is why the analogy of an international trade *war* is so badly misplaced. In war, both countries are damaged and one is the loser. In trade, neither economy is damaged. Both Japan and the United States are winners.

Now if trade is all benefits and trade deficits are no problem, what's all the fuss about? Well, thus far I've been arguing strictly from an economy-wide point of view, and the no-harm-done conclusion doesn't hold for individual industries. So the fuss is about jobs and profits in specific industries, especially autos, which account for the lion's share of the U.S.-Japan trade deficit.

An autoworker or investor has good reason to want to stop Japanese cars from being sold here. But what about the other 98 percent of us? What do we lose if we accept the restrictions the industry wants? We lose the opportunity to buy quality cars at reasonable prices plus the benefits of additional competition and the innovations that come with it. In other words, we lower our standard of living. We shoot ourselves in the foot.

We should remember, furthermore, that competitive displacement is not just an international process, it is universal. In the auto industry, Packard, Studebaker, Nash and many other nameplates were displaced long before foreign cars became an important part of the market. Should the Packard workers and investors have been protected from the Chevys and Fords that put them out of work? More recently, should the big computer makers have been protected against the producers of workstations and personal computers? Should the downtown department stores be protected against the inroads of the Wal-Marts and K-Marts in the suburban shopping malls? How about the thousands of other U.S. companies being outperformed by their competition? Should they be kept in business at the expense of the rest of society? Clearly not. Our standard of living would fall sharply.

Finally, is there any fundamental difference between the domestic examples of competitive displacement mentioned above and the threat the U.S. automobile companies face from Japan? I don't see any.

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Colloquium: How to Energize the Economy

Background:

Most economists are doubtful about the desireability of tax cuts or other fiscal initiatives to boost the economy. But not many politicians, both because of worries about the strength of the economy and because, in a Presidential election year especially, the temptation both to buy votes and to sink still deeper into partisan politics is irresistible. Thus Washington appears to be moving inexorably toward budget changes ostensibly designed to spur the economic recovery.

Question:

If further budget stimulus is inevitable, what should it include? What kind of tax cuts and spending increases should be enacted?

Andrew F. Brimmer
Brimmer & Company

There are no autonomous private sector sources to spur economic expansion. Federal fiscal stimulus is required. It should include two elements: First, a straight 10 percent rebate of 1991 individual income tax liabilities. This would raise 1992 disposable income by $53 billion—or 13 percent. Most of the gain would be spent, thus boosting aggregate demand. Second, the investment tax credit should be reinstituted at a 10 percent rate and applied to all new investment in equipment.

Charls E. Walker
Charls E. Walker Associates

No spending increases should be adopted (except perhaps for infrastructure). On the tax side, help commercial real estate by easing the ridiculous passive loss rules of 1986. Perhaps give a tax break to home-buyers. Most important: Promote long-term jobs, growth and competitiveness by slashing capital gains tax rates and restoring a permanent and non-incremental 10 percent investment tax credit. Do not—repeat *not*—raise tax rates on *any* individual or business.

Stephen H. Axilrod
Nikko Securities

Whatever is done should be very temporary, since our basic need is to reduce the budget deficit sharply over time. That rules out income tax cuts, which have little effect if temporary, and also run the political risk of becoming permanent. An investment tax credit with a two-year life would be constructive, however. Also, public spending for infrastructure should be accelerated, including one-time grants to state and local governments which can use increased local revenues later in effect to "repay" the grants.

Laura D'Andrea Tyson
BRIE/University of California

The right prescription for both the long-run wasting-economy disease and the short-run recessionary headache is more federal spending on infrastructure and basic social needs. This would destroy last year's budget deal, but no matter, since one of its basic assumptions—the Soviet military threat—is obsolete. Down the road, a new budget package will be required to shift military savings to peaceful objectives, and higher, not lower, taxes will be needed to finance public investment and social programs.

Members:

Members of The Conference Board Economics Colloquium are: Stephen H. Axilrod, Vice Chairman, Nikko Securities International; Andrew F. Brimmer, President, Brimmer & Company; Don R. Conlan, President, Capital Strategy Research; Robert G. Dederick, Executive Vice President and Chief Economist, Northern Trust Company; John T. Dunlop, Lamont University Professor Emeritus, Harvard University; Lyle E. Gramley, Senior Staff Vice President & Chief Economist, Mortgage Bankers Association; Isabel V. Sawhill, Senior Fellow, The Urban Institute; Charles L. Schultze, Senior Fellow, The Brookings Institution; James Tobin, Sterling Professor Emeritus, Yale University; Laura D'Andrea Tyson, Professor of Economics, University of California, Berkeley; Charls E. Walker, Chairman, Charls E. Walker Associates; Murray Weidenbaum, Director, Center for the Study of American Business; Albert M. Wojnilower, Senior Advisor, First Boston Corporation.

The Underclass

by Isabel V. Sawhill

Violent crime, drug abuse, teen pregnancy, illiteracy, joblessness—these are the hallmarks of what has come to be called "the underclass." Each new report of a drug-related murder, a street mugging, indiscipline in the schools, a youth gang terrorizing an entire neighborhood, or a welfare mother planning her eighth child leaves the average citizen wondering what has happened to basic values and to the institutions most responsible for transmitting them. Everyone has a theory, but no one really knows why the social fabric of certain communities has deteriorated so badly.

Defining the Underclass

Some claim that "underclass" is simply a new and more pejorative label for poor people. Conventional definitions of poverty, however, may miss what is most distinctive, most interesting, and most troubling about the underclass: its behavior.

Among the American people today, certain norms are widely held. Children are expected to study hard and complete at least high school. Young people are expected to refrain from conceiving children until they can support them, which usually means delaying childbearing until they have completed school and can draw on a regular salary. Adults are expected to work at a steady job, unless they are retired, disabled, or are supported by their spouse. Everyone is expected to obey the laws.

These are social obligations. Those who fulfill them are unlikely to be chronically poor. If they are poor despite having abided by the rules, society is much more likely to come to their rescue. This is and (with the possible exception of the 1960s) always has been the nature of the social contract. The problem is too many people are not fulfilling their end of the bargain; these people constitute the underclass.

To study the problem, The Urban Institute identified areas where dysfunctional behavior has become common. Specifically, these are neighborhoods that rank high (simultaneously) on school dropout rates, numbers of female-headed families with children, welfare dependency, and joblessness among adult males. Using this approach, we identified 880 underclass neighborhoods around the country that contained 2.5 million people, of which 1.1 million were poor.

Our analysis led to the following conclusions: First, the underclass is small. It is so small, in fact, that most poor people are not part of it; in 1980, for example, 29 million Americans lived in poverty, but we found only 1.1 million of them in underclass areas. Second, it is a heavily minority population—59 percent black and 12 percent Hispanic—yet less than 6 percent of the black population and less than one-fifth of the black poverty population live in what we have labeled underclass areas. Third, and most striking, almost two-thirds of the adults had not graduated from high school. Between 1970 and 1980 the number of people living in underclass areas grew more than threefold and, from everything we can tell, these trends have continued through the 1980s.

Why a Growing Underclass?

The reasons for the growth of the underclass remain somewhat elusive. The major competing explanations (which are in no way mutually exclusive) are:

- Changes in the number and types of jobs available to inner-city residents: The growth of white collar jobs in the cities means that more urban jobs demand education, while the migration of manufacturing to the suburbs or to other countries has dried up opportunities for unskilled workers.
- The growth of alternative sources of income—such as welfare, crime, and hustling—that make regular work less necessary.
- A deepening culture of poverty associated with the increased isolation and relative deprivation of the poor in general and poor minorities in particular.

Crime, welfare, and hustling pay a lot better than the kinds of jobs that inner-city residents can get.

There is a tendency in some circles to focus exclusively on the lack of jobs. Yet the real source of the problem may be the low levels of education and literacy that put ghetto residents at the end of the hiring queue in the first place. Whatever jobs are available to such poorly educated people, moreover, must compete with alternative sources of income in the ghetto. Crime, welfare, and hustling pay a lot better than the kinds of jobs that inner-city residents can get.

An earlier study found that crime accounted for about one-fourth of the income received by inner-city minority youths. When asked whether a job or "the street" provided better economic opportunities, one-third favored the latter. Their answer undoubtedly reflects not only the availability of significant

opportunities to earn money illegally, but also a disturbingly accurate perception that the chance of being arrested, convicted, and sent to jail is very low.

The behavior that characterizes the underclass has to be understood, at least in part, as a response to these economic realities. But it is a vicious cycle in which the behavior in turn makes economic success less likely. The seeming inability of public schools to overcome the initial handicaps of children born into poor and often unstable families produces young people who can compete only for the most marginal jobs. Given their poor economic prospects, such adolescents find other outlets for their energies and other sources of status, including exploitative sexual relationships, early out-of-wedlock childbearing, and involvement in drugs and crime. The cycle may then repeat itself in the next generation. Thus, people are locked into the ghetto not just by their lack of opportunities but also by cultural factors.

Still, Americans typically believe that people can get ahead, despite economic and cultural constraints, through education and work and by drawing on community and family resources in hard times. This has in fact been the pattern for most immigrant groups.

Focusing on behavior may seem to imply that escape from the ghetto is a matter of personal choice. But some things are *not* a matter of choice. People cannot choose the natural endowments that they receive at birth, people cannot choose their early environment, people cannot choose their race or gender, attributes that still matter in American life. But within these parameters—and they can be quite confining—people do have choices. The objective of public policy should be to widen people's choices and to reward those who take responsibility for their own lives.

Policy Directions

Several things can be done. First, we should invest in children. Investing in children is expensive but may still be the most cost-effective way to break the cycle of poverty and social dissolution that besets the underclass. Programs with records of success already exist, such as prenatal care, nutrition assistance, preschool enrichment, and compensatory education. It would cost $10 to $15 billion annually to expand such programs and to support more innovative local approaches, some targeted at underclass areas. Any such expansion would need to be combined with serious efforts to improve inner-city schools.

Providing support for families who want to move out of the ghetto is equally important. Substituting housing vouchers for public-housing construction would be sensible. So would more efforts like Chicago's Gautreaux project, which quietly, and after careful screening, moves inner-city black families from public housing projects to suburban neighborhoods where their rents are subsidized. Families should be selected partly on the basis of their commitment to work and to provide educational opportunities for their children.

Investing in children is expensive but may still be the most cost-effective way to break the cycle of poverty and social dissolution that besets the underclass.

Furthermore, we should replace the welfare system with income support that is more closely tied to employment. Many thoughtful analysts have criticized the current system and suggested reforms. Though the details vary, all would eliminate income transfers as a source of *long-term* support for families that are headed by an able-bodied adult. Most would emphasize the child-support responsibilities of absent parents. And most would provide additional assistance or subsidies to the working poor. The recently enacted Family Support Act incorporates many of their views. These efforts may not be enough to stem the growth of the underclass, but they are steps in the right direction.

I would add to these efforts a stronger incentive for young people to complete their educations and to defer childbearing. Early childbearing harms the prospects of not just one generation but two. A variety of responses is needed. Sex education, more school-based clinics where contraceptives are available, and abortion all have a role to play, as does the deterrent effect on young males of stronger and more consistent enforcement of child-support obligations. There is currently no real reward, however, for those teenagers who defer childbearing. Indeed, the welfare system and the social norms in inner-city communities tilt in the other direction.

Some thought should be given to promising every teenager from an impoverished inner-city family a generous voucher that could be used for such approved purposes as getting a college education, vocational training, or on-the-job training in a community-service job.

Receipt of a voucher would be conditional on remaining childless and finishing high school with a reasonable academic record. The childbearing rule would include young men as well as women—though it would, admittedly, be more difficult to enforce among males who were determined to conceal their paternity. An all-out campaign that included the stick of child-support enforcement together with the carrot of a voucher could begin to improve current behavior patterns, especially if community leaders supported this objective.

None of these suggestions is guaranteed to work; most of them will be controversial. The task of reducing chronic poverty and the growth of the underclass is daunting. The overall objective should be to give people better choices than they now have, both by creating opportunities and by giving them a clearer sense of personal responsibility.

Excerpted from *The Public Interest*, Summer 1989. Isabel Sawhill is Senior Fellow at the Urban Institute.

Human Capital and the Productivity of the Labor Force

by Gary S. Becker

To many of you, capital means a bank account, 100 shares of IBM, assembly lines, or steel plants. These are all forms of capital in the sense that they yield income and other useful outputs over long periods. But I am going to focus on a different kind of capital. Schooling, computer training, medical care, and lectures on the virtues of punctuality and honesty are capital too in the sense that they improve health, raise earnings, or even add to a person's appreciation of literature over much of his or her lifetime. Consequently, it is fully in keeping with the capital concept as traditionally defined to say that expenditures on education, training, medical care, etc., are investments in capital. However, these produce human, not physical or financial, capital because you cannot separate a person from his or her knowledge, skills, health, or values the way it is possible to move financial and physical assets while the owner stays put.

The outstanding economic records of Japan, Taiwan, and other Asian economies in recent decades dramatically illustrate the importance of human capital to growth. Lacking natural resources—e.g., they import practically all their sources of energy—and facing discrimination from the West, these so-called Asian tigers grew rapidly by relying on a well-trained, educated, hard-working, and conscientious labor force.

The importance of human capital to an economy shows up clearly in the earnings advantages of greater education. Many studies have shown that high school and college education in the United States greatly raise a person's income, even after netting out direct and indirect costs of schooling and after adjusting for the better family backgrounds and greater abilities of more educated people.

As several recent studies document, the monetary gains from a college education rose sharply during the 1980s to the highest level during the past fifty years. The earnings advantage of high school graduates over high school dropouts also increased. Talk about over-educated Americans has vanished, and it has been replaced by concern once more about the quality and quantity of education and other training.

Strengths and Weaknesses

The 1980s also saw the development of considerable concern about the international competitive position of U.S. industry and services, concerns that were stimulated by tough economic competition from a renewed Europe, and from Japan, Korea and other Asian countries, sluggish rates of productivity advance in the United States during the past fifteen years, a large drop in SAT scores, and the dismal performance of American high school students on international tests in mathematics. Many people believe that the education and other human capital of American workers is much worse than that of the Japanese, Germans, and other competitors.

Yet this conclusion is not correct, for there are many strengths as well as some glaring weaknesses in the quality of the American labor force. The United States has a superb university system and on the whole a good collection of colleges that offer varied programs. Many students come here from Japan and elsewhere for postgraduate studies, and a surprising number of foreign students are also enrolled as undergraduates.

The top 60 percent of high schools also do a satisfactory job. True, they are generally far less demanding than the top half of schools in Japan, Korea, and many countries of Europe. But almost all graduates of these U.S. schools go to college where they catch up to and often surpass students from other countries.

Another real strength of the United States, especially in comparison to Japan and even Germany, is the growing utilization of the human capital of women. Labor force participation of married women is low in both these countries, and women there do not readily advance to responsible positions.

Another real strength of the United States, especially in comparison to Japan and even Germany, is the growing utilization of the human capital of women.

Job opportunities for women in the United States at first improved slowly as they started to move up in business and the professions during the past several decades. But the trend accelerated sharply after the late 1970s. The ratio of the earnings of full time working women to men increased more rapidly since 1979 than during any previous period in our history, and women are becoming much more prominent in many highly skilled jobs. Improvements in the economic position of black women have been especially rapid, and they now earn just about as much as white women.

What then is the United States' human capital problem? It is the lower 30 percent or so of high school students, who either do not finish school (about one-fifth), or are in the bottom quartile of high school graduates.

The bottom third of the United States' male labor force has done very badly during the past 30 years. Since real spending per student in public schools trebled from $1,500 in 1960 to near $4,500 in 1990, how can we say that too little is spent on public education? Yet there is little question that the quality of education available in large cities like Chicago and New York deteriorated greatly.

Another key factor in the lower economic position of less skilled males is the deterioration in family life. Almost half of all black children are raised by a single parent, while divorce and separation takes its toll on many white children as well. There is a small but growing body of evidence that divorce and being raised by one parent especially reduces the achievements of boys.

Families divide their total spending on children between number of children and the amount spent per child. Differences among ethnic groups in the United States are fascinating. Groups with small families generally spend a lot on each child's education and training, while those with big families spend much less. Japanese, Chinese, Jews, and Cubans tend to have few children but they become well educated, while Mexicans, Puerto Ricans, and blacks have big families and the education of children suffers. (I should add that the Mormons are an interesting exception, for they have both very large families and high levels of achievement.) It should come as no surprise that children from the ethnic groups with small families and large investments in human capital typically rise faster and further in the United States' income-occupation hierarchy than do children from other groups.

What Can Be Done?

Several steps can increase the quality at the lower end of the labor force without requiring much additional public spending. The easiest action conceptually, although not politically, would be to reorient immigration policy to admit many more younger, skilled workers. Because they would have above-average incomes, they would pay above-average taxes and make few demands on welfare, Medicaid, and other transfer programs.

Including religious-sponsored and other private schools in the voucher program would help break the monopoly of teachers' unions and public school bureaucrats.

There is no magic bullet to improve automatically the education received by inner city blacks and other disadvantaged groups. But greater competition for students from private schools would be a big help. This is why I support a system that would provide each student, especially each poorer student, with a voucher equal to the per capita expenditure by public schools. Students would be allowed to use their vouchers at private as well as public elementary and high schools. Including religious-sponsored and other private schools in the program would help break the monopoly of teachers' unions and public school bureaucrats. The average Catholic high school provides a much better education than the typical public school at about two-thirds the cost.

Vouchers would encourage more poorer students to finish high school, but no doubt many would continue to drop out. This is not to be lamented if other reforms help dropouts acquire skills that make them productive members of the labor force. Germany has a successful program that combines on-the-job training with classroom activities for over two-thirds of their students between ages sixteen and nineteen. Vouchers that would have gone to students if they continued in school can be well spent on a program that would give to dropouts computing and other skills valued by the modern American economy. Of course, not all dropouts would benefit from such an on-the-job training-apprentice program. Still, this would help raise the productivity of the sector of the labor force most in need of aid.

The enormous changes in family structure during the past quarter of a century cannot be radically reversed. But the harmful effects on children can be reduced. The United States is wisely moving toward policies that force divorced fathers to make good on their child support obligations, and welfare eligibility should not be contingent on the father being absent.

Under present laws, welfare payments closely depend on the number of children and not at all on their quality. This should be altered to make the number of children less important. Instead, parents should receive larger grants if they enroll their children in head-start programs, if the children do well in school, if they are taken for health check-ups, and for other contributions to the quality of their children.

Finally, I believe it is not wise to discriminate against women who stay home to care for their children. It is questionable whether child care should be subsidized at all, but surely any subsidies should not be available only to working women. Programs that favor working parents create *artificial* incentives for parents to work rather than stay home to care for their young children.

These proposals do not require a lot of public spending; indeed, they are probably cheaper than the present inefficient programs. But they would help better prepare this country for the modern economic world with its emphasis on information and skills, and the stiffer competition from other countries.

This originated as the Adam Smith Address to the National Association of Business Economists, and is excerpted from *Business Economics*, January 1992. Gary S. Becker is a Professor of Economics and Sociology, University of Chicago, and Senior Fellow of Hoover Institution, Stanford University.

I am amazed at the extent to which people ignore the fact that recessions are to be expected in America, and everywhere else. Mayors complain that the recession forces them to close the libraries, as if they had no responsibility for so managing the city's affairs in good times that the libraries could stay open in recession. Business executives complain bitterly about their losses in a recession and are not consoled by the reminder that there had been five or six good years—which they attribute to their own skills alone. Everyone complains in a recession about inability to meet obligations he incurred in good times as if there would never be another recession.

We have had nine recessions in the past forty-three years. You don't have to be, in today's cliche, a rocket scientist to figure out that you are going to encounter a recession within a period short enough to be worth thinking about. To say this is not to relieve the government of doing what it can to prevent or moderate recessions. But this effort will not be fully successful, and we ought to learn to live better with the fact that recessions do and will happen.

Excerpted from "Recessions Happen," by Herbert Stein, *The Wall Street Journal*, October 10, 1991.

What 1991 conclusively showed is that our society is vastly overcommitted. Despite spending cuts, 31 states raised taxes in 1991. Governments at all levels are caught between the demand for more services and less taxes. By itself, strong economic growth (which would increase tax revenues) cannot bridge this gap. We simply cannot afford everything we want.

The upshot is that our politics are growing more selfish and spiteful. They focus increasingly on rewarding friends and punishing enemies—and not pursuing a common good. Economic frustration feeds another ugly trend: the rising preoccupation with race and ethnicity.

At its end, 1991 leaves us awash in self-doubt. It's a troubling legacy. Are we distracted from the year's gains by momentary frustration? Or do these frustrations signal the onset of more insecurity and disorder? These are good questions for 1992—and perhaps many more years.

Excerpted from "The Year of Sobering Up," by Robert J. Samuelson, *Newsweek*, December 23, 1991.

Isn't it ironic that—after complaining about the government's mismanagement of the $600 billion savings and loan mess, Defense Department procurement of $1500 coffee pots, and the muckraking television spectacle of a botched Supreme Court confirmation—everyone instinctively turns to the Federal government to "solve" the problems of the health-care system.

Excerpted from "Next Week," by Jay N. Woodworth, Bankers Trust Company, November 8, 1991.

D'YA MIND IF I BORROW THE CLASSIFIED SECTION?
SURE... LOOKING FOR A JOB?
YEAH... I GOT LAID OFF IN THE RECESSION.
I NEVER EVEN SAW IT COMING
WHAT DO YOU DO?
I'M AN ECONOMIST
FENTON

Courtesy of the Rockefeller Archive Center

I Believe

by John D. Rockefeller, Jr.

I believe in the supreme worth of the individual and in his right to life, liberty, and the pursuit of happiness.

I believe that every right implies a responsibility; every opportunity, an obligation; every possession, a duty.

I believe that the law was made for man and not man for the law; that government is the servant of the people and not their master.

I believe in the dignity of labor, whether with head or hand; that the world owes no man a living, but that it owes every man an opportunity to make a living.

I believe that thrift is essential to well-ordered living and that economy is a prime requisite of a sound financial structure, whether in government, business, or personal affairs.

I believe that truth and justice are fundamental to an enduring social order.

I believe in the sacredness of a promise, that a man's word should be as good as his bond; that character—not wealth or power or position—is of supreme worth.

I believe that the rendering of useful service is the common duty of mankind and that only in the purifying fire of sacrifice is the dross of selfishness consumed and the greatness of the human soul set free.

I believe in an all-wise and all-loving God, named by whatever name, and that the individual's highest fulfillment, greatest happiness, and widest usefulness are to be found in living in harmony with His will.

I believe that love is the greatest thing in the world; that it alone can overcome hate; that right can and will triumph over might.

This "personal credo" was first delivered publicly by Mr. Rockefeller in an address at Fisk University in May 1941.

Get Out Of That Rut

Oscar Wilde said,
"Consistency is
the last refuge of
the unimaginative."
So stop getting up
at 6:05.
Get up at 5:06.
Walk a mile at dawn.
Find a new way
to drive to work.
Switch chores with
your spouse
next Saturday.
Buy a wok.
Study wildflowers.
Stay up alone all night.
Read to the blind.
Start counting
brown-eyed blondes
or blonds.
Subscribe to an
out-of-town paper.
Canoe at midnight.
Don't write to your
congressman,
take a whole scout
troop to see him.
Learn to speak
Italian.
Teach some kid
the thing you do best.
Listen to two hours of
uninterrupted Mozart.
Take up aerobic dancing.
Leap out of that rut.
Savor life.
Remember, we only
pass this way once.

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The Continuing Battle Against Economic Nonsense

by Murray Weidenbaum

The flood of economic nonsense that inundates our society each day is both appalling and inexplicable. Sometimes I get the feeling there's a conspiracy afoot on the part of business, government and the public interest groups to keep the economics profession operating at full employment. But that notion doesn't hold water, because it's not in their self interest to keep economists working. What might be in their self interest is the idea that they can fool some of the people some of the time. If that's the reason, all we can do is to expose it regularly for the poppycock it is. I offer a few examples:

Business Nonsense. We can begin with business and the way so many of its executives refer to what economists call "competition." In labor markets, when other companies bid away workers by offering higher wages and salaries, such competition is called "pirating." In the markets where a company sells its goods and services, on the other hand, the preferred term is "price chiseling."

Both businesses and unions have their own specialized vocabulary for foreign trade. "Imports" are seldom mentioned; they are more commonly referred to as "unfair foreign competition." And what is the desired response? Is it "protection?" No no, that's too blatant. "Fair trade" sounds much better. After all, it is only fair that we force Americans to buy domestically produced products.

An alternative solution was suggested by Russell Baker of *The New York Times*. He noted that the Japanese auto industry had productive capacity far in excess of its domestic requirements, while the United States had far more lawyers than it needed. Baker recommended a simple swap: We would send Japan 100 lawyers for every 1,000 Japanese cars that enter the United States. As American attorneys entered the Japanese economy, he reasoned, that nation's productivity would decline. In contrast, the exodus of lawyers from the United States would contribute to a rise in the efficiency of our economy. Eventually, the economic competitiveness of the two nations would equalize. Baker felt so strongly about his plan that he suggested we start the process by sending the Japanese 100 lawyers on the cuff.

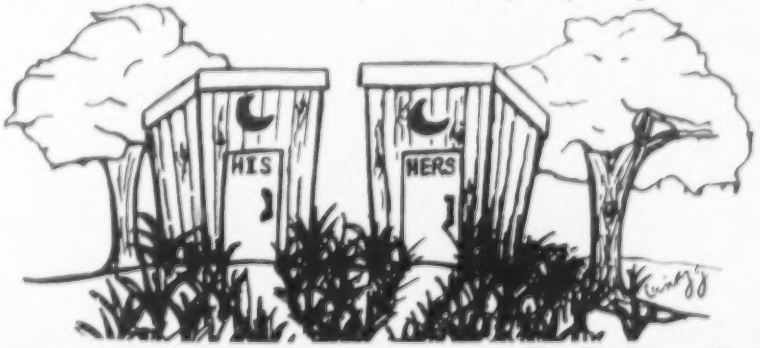
Government Nonsense. Consider first such programs as food stamps, Medicaid, and public housing. Predictably, we hear howls of outrage from their supporters anytime an effort is made to slow the growth of these distributions of "income in kind." But at the same time these supporters object strenuously to the idea that such income should be included when the government measures the number of people in poverty, on the grounds that a dollar of spending for these social programs does not generate a dollar of benefit to the recipients—i.e., that food stamps aren't worth their face value in cash.

One enthusiast for these social programs suggests that these items, should they be included in any measure of poverty, be discounted by 20 percent or even 40 percent. The cynic in me says that we have the makings of a deal here. Eliminate food stamps and other "payments in kind" and split the difference. Give the recipients cash equal to one-half of the government's current cost for these programs and reduce the budget deficit by the other half! The major complaints, I'm sure, would not arise from the recipients, only from the newly unemployed social workers and the professional advocates of the programs.

Let us now turn to regulatory nonsense, specifically the Occupational Safety and Health Administration. Did you hear about the OSHA rule that spittoons have to be cleaned daily? Is it true that OSHA made one little company build separate his and her toilets even though the only two employees were married to each other? Did OSHA really issue a regulation defining a hole, and another one on the color of exit lights? The answer is yes to each of these.

The Pentagon takes hundreds of pages of instructions to set the specifications for the purchase of a missile. That we might expect. But did you know it takes 14 pages to buy a fruitcake? That's right, it's Military Specification MIL-F-1499F.

Bureaucratic nonsense is not, of course, limited to the federal government. A couple of years ago the New



York City Board of Education sent a memo to thousands of teachers on the weighty subject of "Proper Handwashing." Here, as quoted in the *New York Times*, February 21, 1990, are the seven steps that are required.

- Remove rings and bracelets; place them in a safe area.
- Wet hands with warm, running water...necessary to carry away dirt and debris.

Did you know it takes the Pentagon 14 pages to buy a fruitcake? That's right, it's Military Specification MIL-F-1499F.

- Apply soap, lather well.
- Wash hands, using a circular motion and friction, for 15 to 30 seconds....
- Rinse hands well under running water. Point fingers down...so that the water drains from the wrist area to the fingertips.
- Dry hands well with paper towels and turn off the water, using paper towels instead of bare hands.

PIG Nonsense. Elsewhere in the nation, the self-styled public interest groups are usually referred to with respect. In Washington, however, they are just "pigs." Let us focus on the self-styled "corporate activists," the most famous of whom is Ralph Nader. Some time ago, a few of us criticized OSHA for issuing an especially dumb pamphlet on farm safety. When OSHA recalled its publication, Ralph attacked the agency for caving in. I'll let you decide for yourself about the usefulness of the pamphlet by reprinting a couple of paragraphs, as published in the *Omaha World Herald*.

> Be careful around the farm.... Hazards are one of the main causes of accidents. A hazard is anything that is dangerous.
>
> Be careful when you are handling animals. Tired or hungry or frightened cattle can butt and trample you. Be patient, talk softly around the cows. Don't move fast or be loud around them. If they are upset, don't go into the pen with them.

Economists' Nonsense. Let me end with a parody of a group I have ignored to this point, economic forecasters. Here's what their speeches sound like:

Banking figures show an easing of the rate at which business is easing off. This can be taken as ample proof that there's a slowing up of the slowdown. Now, to clarify that, it should be noted that a slowing up of the slowdown is not as good as an upturn of the downturn. On the other hand, it's a good deal better than either a speedup of the slowdown or a deepening of the downturn. Also, it suggests that the climate is about right for an adjustment of the readjustment to interest rates.

Turning specifically to interest rates, we find a very definite decrease in the rate of increase. This clearly shows there should be a letting up of the letdown. Of course, if the slowdown should speed up, the decrease in the rate of increase would turn into an increase in the rate of decrease.

And finally, the inflation of the recession would turn the recession into a depression, while a deflation in the rate of inflation would give the impression of a recession of the depression. (I hope you got all that—because there'll be a test later!)

Murray Weidenbaum is Director of The Center for the Study of American Business, Washington University of Saint Louis.

The Costs of Protectionism

Restrictions on imports of textiles, apparel, and nonrubber footwear have been a recurring and nagging issue over the past decade. The Congressional Budget Office (CBO) has studied the history of the economic health of the three industries and the economic effects of the major proposals for changes in protection and concluded that tariffs and import quotas are a costly and inefficient means of preserving jobs in these industries.

Estimates of the annual costs to consumers of current and proposed restrictions are generally in the range of $39,000 to $74,000 for each job they retain in the textile and apparel industries and higher for jobs retained in the nonrubber-footwear industry. Most estimates of the annual net costs of these restrictions to the economy (the amount by which the costs to consumers and the government exceeded the benefits to U.S. firms, workers, and the government) are in the range of $9,000 to $38,000 for each job retained in the textile and apparel industries. Estimates of costs in the nonrubber-footwear industry are higher.

Indeed, the estimated consumer costs are all higher than the average annual earnings of the workers who hold the jobs, and most of the estimated net welfare costs are also. Consequently, it would generally be more efficient for the government to allow the jobs to disappear and compensate any displaced workers who cannot find equivalent work.

Excerpted from a summary of "Trade Restraints and the Competitive Status of the Textile, Apparel, and Nonrubber-Footwear Industries," a December 1991 study by the Congressional Budget Office, U.S. Congress.

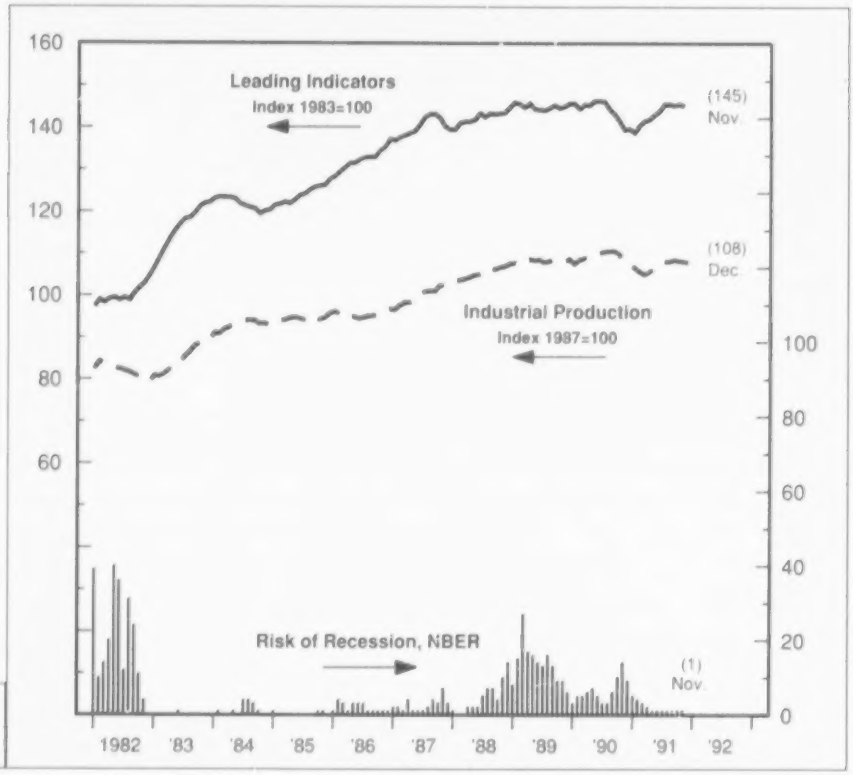
Conference Board Stat File

Still Muddled

The economic outlook is still muddled. The optimists can't explain away the sour state of consumer expectations (page 14) and the pessimists can't explain away the stock market. The GDP growth rate came in at 0.3 percent for the fourth quarter and, in view of the lack of direction in the leading index (below), growth seems likely to remain in that general range for the current period. Inflation continues to subside slowly (page 13).

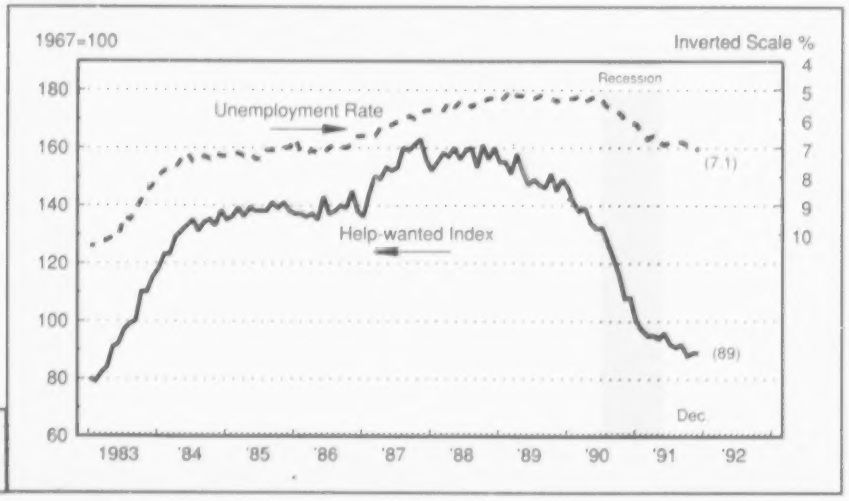
In Washington it's politics as usual, as the President and Congress fight to sprinkle goodies among their constituents in this election year. Tax cuts and additions to spending are on their way, but the amounts and the impact will probably be limited. The important action is on the monetary side, where the Federal Reserve has made clear its resolve to stimulate forcefully. Even with no further action by the Fed, slow economic expansion is the best bet for the spring months with an incremental momentum taking hold from there. *(Note: Data for Conference Board series in this section are available on request from Ken Goldstein at 212-339-0331.)*

Early Warning Indicators



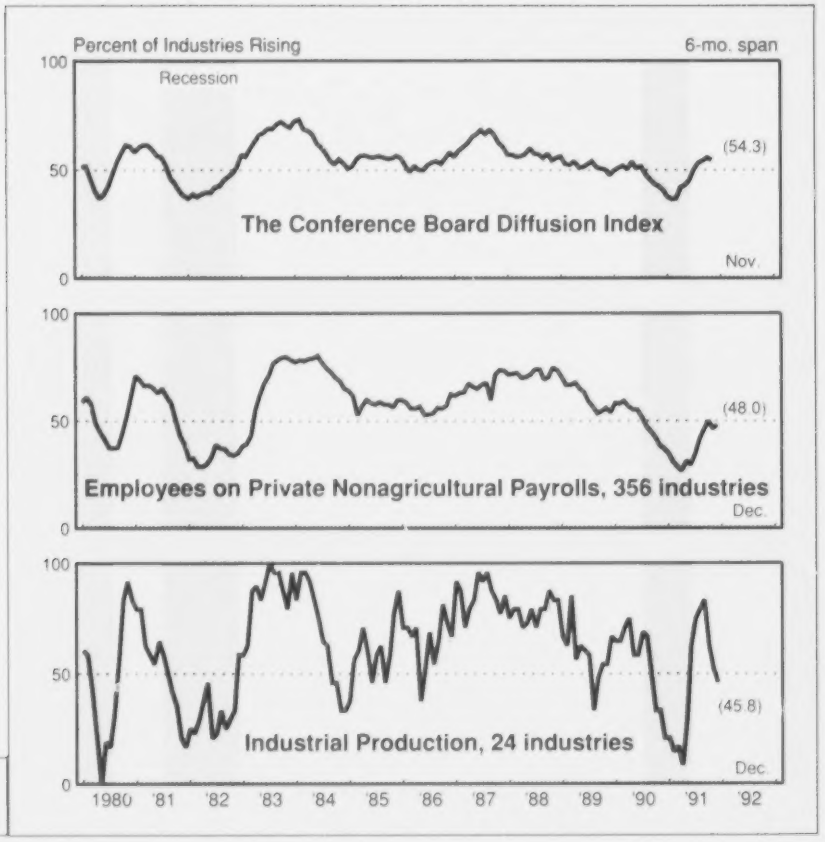
Early warning indicators say the U.S. business cycle is inert.

Help-Wanted Advertising and Unemployment



Labor market indicators continue weak.

Indexes of Economic Momentum



Momentum back in neutral.

Core inflation has slowed, but the rate is still no lower than the average of the past 6 years.

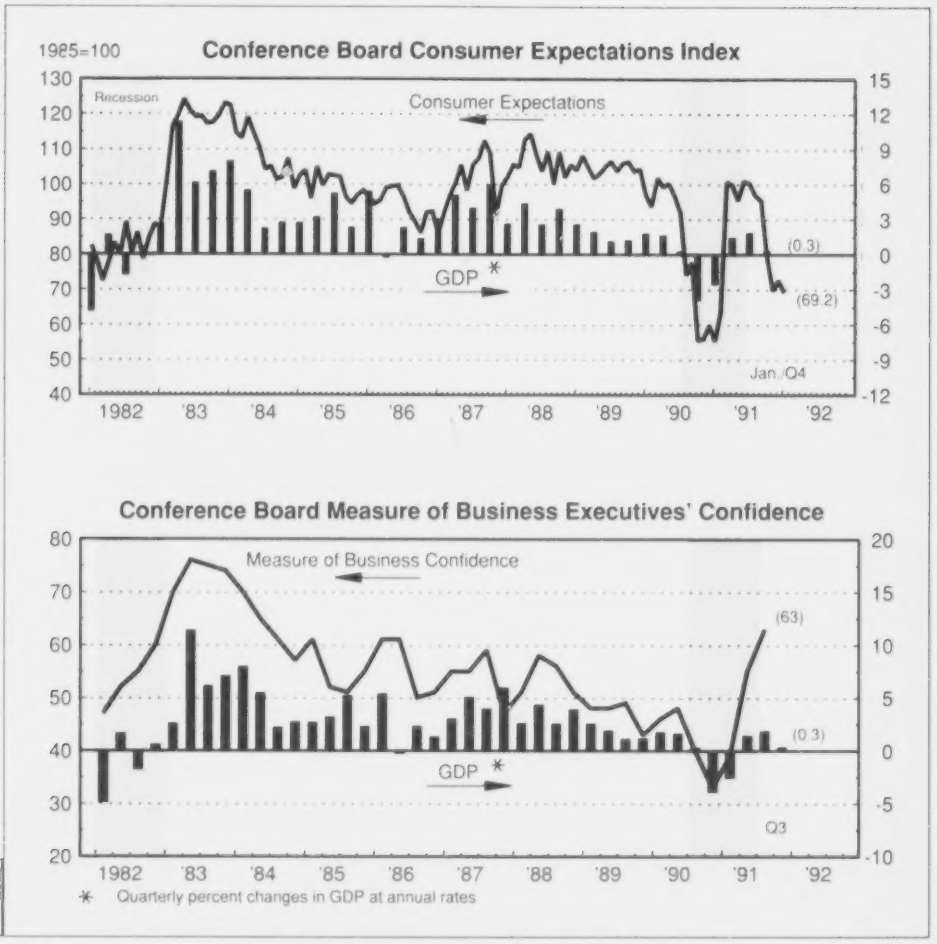
Inflation Fundamentals

* Core Inflation = CPI excluding food at home and energy.

* Core employment-cost inflation = wages and salaries of private sector workers excluding sales personnel (i.e., excluding the benefits that are part of the ECI).

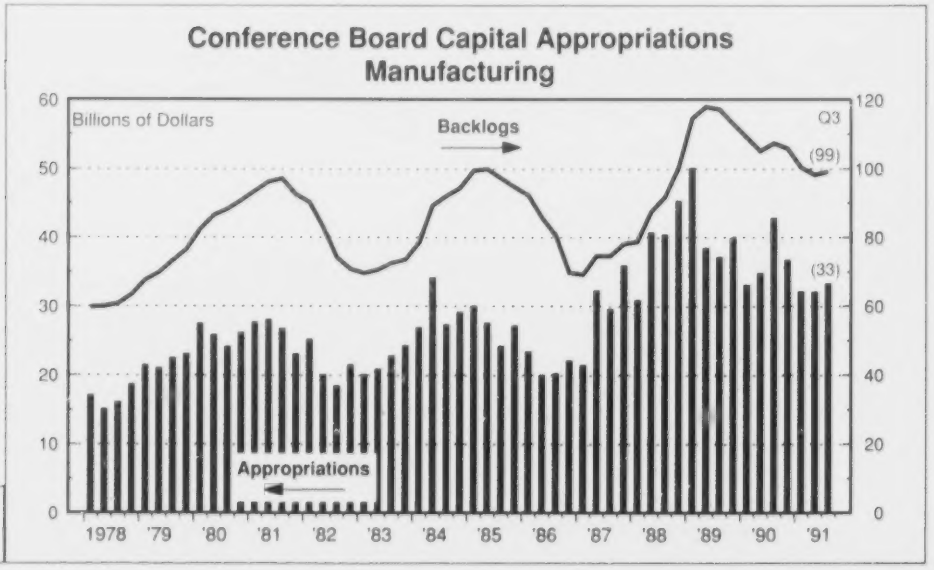
Conference Board Stat File

Confidence



Consumer expectations continue very depressed.

Investment Intentions



Manufacturers' capital spending plans holding up fairly well.

Inside the Crystal Ball

			UCLA	MERRILL L.	DU PONT	GEORGIA ST.	NORTHERN TRUST	CONF. BOARD	EATON	L.H. MEYER	DRI	WEFA	MICHIGAN - RSQE			
Date of Forecast			Jan.	Dec.	Jan.	Jan.	Jan.	Jan.	Jan.	Jan.	Jan.	Jan.	Jan.			
Gross Domestic Product			(Quarter-to-quarter percent change, constant dollars, seasonally adjusted at annual rates)													
			%	%	%	%	%	%	%	%	%	%	%			
Actual	1991	2Q	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	2Q	1991	Actual
		3Q	1.8	1.7	1.8	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	3Q		
Forecast		4Q	-0.2	-1.0	-0.7	-0.7	0.2	0.9	1.4	0.0	0.3	0.5	0.5	4Q		Forecast
	1992	1Q	-1.0	-1.0	-0.1	0.7	0.0	1.1	2.2	0.7	-0.5	-0.5	1.1	1Q	1992	
		2Q	1.4	2.4	3.8	1.3	2.5	1.5	3.4	2.4	2.8	2.8	2.8	2Q		
		3Q	2.9	3.4	4.4	3.0	3.3	2.5	3.9	3.8	4.1	3.5	4.2	3Q		
		4Q	3.3	3.1	4.4	2.9	2.9	2.7	3.6	3.6	4.6	3.6	4.1	4Q		
	1993	1Q	3.4		3.4	3.2	2.9	1.8	3.3	3.2	4.1	2.9	4.4	1Q	1993	
		2Q	4.1		3.5	3.8	3.0	2.1	2.1	3.0	3.4	2.9	3.3	2Q		
		3Q	3.3		3.3	4.1	2.9	2.6	2.4	3.0	2.5	3.0	2.2	3Q		
		4Q	2.6		3.3	3.7	2.5	2.3	3.9	3.2	1.9	2.9	1.9	4Q		
Inflation (Deflator)			(Percent change from same quarter one year earlier)													
Forecast	1991	4Q	3.1	3.4	3.3	3.2	3.5	3.0	2.4	3.3	3.1	3.0	3.0	1991	4Q	Forecast
	1992	4Q	1.8	3.8	3.6	2.8	2.9	2.3	3.8	2.6	3.3	2.2	3.0	1992	4Q	
	1993	4Q	2.4		3.6	3.3	3.3	3.3	2.8	2.9	3.1	3.4	3.0	1993	4Q	
30-Yr Treasury Bond Rate			(Percent, quarterly)													
Actual	1991	2Q	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	2Q	1991	Actual
		3Q	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	3Q		
Forecast		4Q	7.8	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.8	4Q		Forecast
	1992	1Q	7.5	7.7	7.3	7.4	7.3	7.5	7.7	7.4	7.6	7.2	7.5	1Q	1992	
		2Q	7.6	7.8	7.3	7.4	7.1	7.5	7.9	7.4	7.5	7.1	7.3	2Q		
		3Q	7.6	7.9	7.2	7.6	7.1	7.5	7.9	7.5	7.6	7.2	7.2	3Q		
		4Q	7.7	8.0	7.3	7.7	7.2	7.8	7.9	7.6	7.7	7.4	7.1	4Q		
	1993	1Q	7.8		7.4	7.8	7.3	7.8	7.9	7.5	7.9	7.5	7.3	1Q	1993	
		2Q	7.8		7.4	8.0	7.4	8.0	7.8	7.5	7.9	7.6	7.2	2Q		
		3Q	7.9		7.5	8.2	7.5	8.0	7.8	7.4	8.1	7.7	7.1	3Q		
		4Q	8.2		7.5	8.4	7.6	8.0	7.8	7.4	8.4	7.8	7.0	4Q		
Unemployment Rate			(Percent, quarterly)													
Actual	1991	4Q	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	4Q	1991	Actual
Forecast	1992	4Q	7.5	6.7	6.6	7.0	6.8	6.9	6.6	6.8	6.7	7.2	6.8	4Q	1992	Forecast
	1993	4Q	6.8		6.2	6.3	6.4	6.9	6.3	6.0	6.0	6.9	6.2	4Q	1993	

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